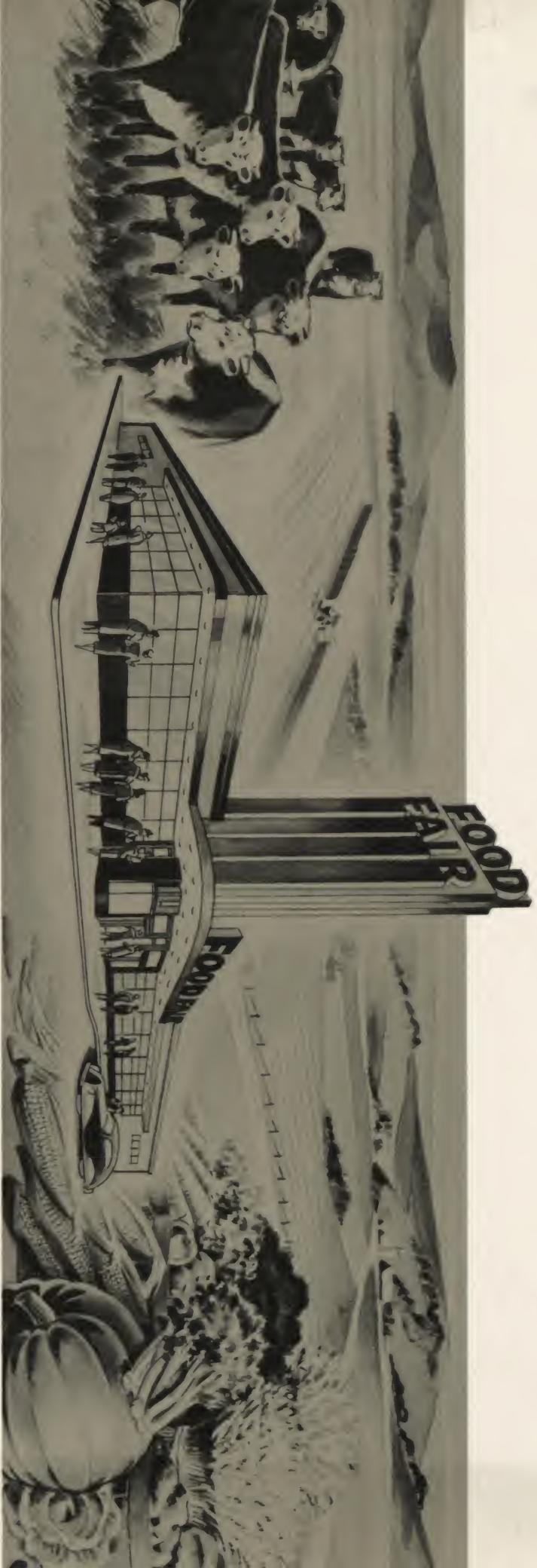


1946 ANNUAL REPORT

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE



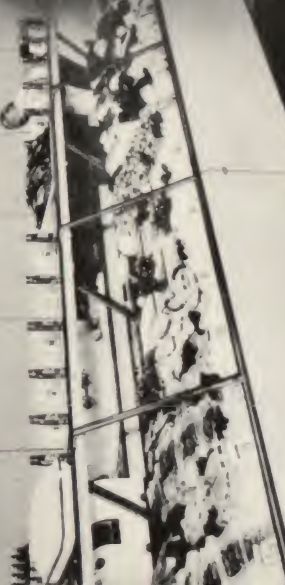
FOOD FAIR STORES, INC.
For Fiscal Year Ended December 28, 1946

• Butter • Eggs •



FOOD FAIR

FOOD FAIR





Oranges

Grapefruit

FANCY FRUITS

Lemons



FOOD FAIR STORES, INC.

OFFICERS

SAMUEL FRIEDLAND, *Chairman of the Board*
GEORGE FRIEDLAND, *President*
HESS KLINE, *Vice-President and Treasurer*
MYER B. MARCUS, *Vice-President*
ARTHUR ROSENBERG, *Vice-President*
HERMAN SILVER, *Vice-President*
LOUIS STEIN, *Vice-President and General Counsel*
MAJ. GEN. JAMES A. ULIO, (U.S.A. Retired), *Vice-President*
MYER M. GORDON, *Secretary*
B. F. LIEBER, *Assistant Secretary*
JOSEPH RASH, *Assistant Secretary*

DIRECTORS

GEORGE FRIEDLAND, Philadelphia, Pa. JAMES P. MAGILL, Philadelphia, Pa.
SAMUEL FRIEDLAND, Philadelphia, Pa. MYER B. MARCUS, Philadelphia, Pa.
MYER M. GORDON, Philadelphia, Pa. ARTHUR ROSENBERG, Philadelphia, Pa.
HESS KLINE, Philadelphia, Pa. HAROLD W. SCOTT, Philadelphia, Pa.
LOUIS STEIN, Union City, N. J.

TRANSFER AGENT

Registrar & Transfer Company
2 Rector St., New York, N. Y.
15 Exchange Place, Jersey City, N. J.

REGISTRAR

Bank of the Manhattan Co.
40 Wall St., New York, N. Y.

The Common Stock Is Fully Listed on the New York Stock Exchange.



**TO THE STOCKHOLDERS OF
FOOD FAIR STORES, INC.**

In this annual report for the fiscal year which ended December 28, 1946, I am pleased to present to you a report on the activities of your company, together with financial statements as certified by our accountants, Laventhol, Krekstein & Co.

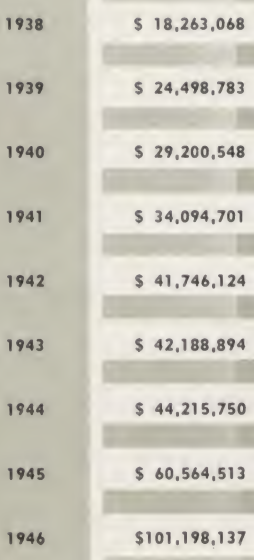
I am happy to report that 1946 was a record-breaking year for your company, both in sales volume and net profits. For the first time in our history, we crossed the One Hundred Million Dollar mark in sales, a tribute to the foresight of Samuel Friedland, founder of the business and Chairman of the Board of Directors.

FINANCIAL POSITION

The financial position of the company has been soundly maintained and improved. Net working capital (excess of current assets over current liabilities) at the close of 1946 was \$8,090,670, as compared with \$7,056,971 at the end of 1945, an increase of \$1,033,699.

SALES AND EARNINGS

Sales for the year aggregated \$101,198,138, as compared with \$60,564,514 for 1945. Net income after taxes amounted to \$3,642,084, against \$948,129 in 1945.





Earnings per share for 1946 on the no par common stock, after dividends on the preferred stock, amounted to \$2.27, as compared with \$0.57 in 1945 (computed, for purposes of comparison, as if the four-for-one split-up set forth under the next caption had taken place prior to the end of 1945). The increased earnings reflect the growth in sales volume and the benefit from the reduction in federal income taxes.

DIVIDENDS AND CAPITAL STRUCTURE

During the year, the regular dividends aggregating \$2.50 per share were paid on the outstanding preferred stock. On March 15, the regular dividend of 25c per share was paid on the outstanding common stock.

In April, 1946, the Board of Directors decided to effect a four-for-one stock split-up of the common stock of the company and to change the \$1.00 par value to no par. In May, 1946, the stock split-up became effective and four shares of the new common stock (without par value) were issued for each share of the "old" common stock (\$1.00 par value).

A cash dividend of 10c per share was declared during each of the remaining quarters of 1946 on the no par value common stock. In November, 1946, the company declared a 5% common stock dividend, which was paid on December 30, 1946.

EXPANSION PROGRAM

During the year under report, we have been actively engaged in developing a program for continued growth of the business through the opening and acquisition of additional super markets and the remodelling of existing markets.

Since the first of this year, we have opened or acquired two additional units and we are remodelling several existing markets. Additional super markets are now under construction.

The units recently completed and those under construction incorporate numerous improvements over existing retail markets.

The modern equipment and architectural developments designed by our Store Planning Department have resulted in greater ease and comfort of customer shopping, and have contributed toward a more efficient operation. These units are, indeed, as they have been called, "the Tiffany of Super Markets."

PERSONNEL

Expansion in units can be accomplished and successfully put into operation only if and when personnel is trained to fill the ranks. As a part of this program, we are constantly training and promoting our personnel.

Although wage rates in all phases of our business are higher, we have been able, and hope in the future to continue, to absorb these increased operating costs by instituting better methods and following a conservative policy in other operating expenditures without sacrificing that well-known "Food Fair Service" which our customers have learned to expect.

Relations with Labor Unions representing a large majority of our employees have been maintained on a satisfactory basis and we firmly believe that this relationship with our employees will continue.



The FOOD STAR

THE NEWS ISSUE

The FOOD STAR

PUBLISHED BY AND FOR THE EMPLOYEES OF FOOD FAIR STORES, INC.

EMPLOYEES TAKEN ON TOUR OF WAREHOUSES



The Incentive Bonus and Retirement Plan, which requires no payment by the employee, has been continued and now numbers 128 participants. During the year, the Company contributed to the Plan the sum of \$113,557.08 which, with the monies deposited in previous years, brings the total to \$476,019.89.

The number of our veteran-employees has grown, and the now well-established policy of welcoming back employees who have been in the Services, and of hiring veterans, although they were not with Food Fair before the War, has borne fruit.

Our management realizes that the future success of the company depends upon our ability to adjust ourselves to new problems and to new conditions which we believe we will face during this and future years. We are confident that our organization can and will cope with these problems as they arise.

Much credit for our success must go to our faithful and loyal employees who have given us such wonderful co-operation. With such esprit de corps, we can look forward to a year of record-breaking accomplishment.

Respectfully submitted,

Philadelphia, Pa.
April 1, 1947.

President.

LAVENTHOL, KREKSTEIN & CO.

Certified Public Accountants
1528 WALNUT STREET
PHILADELPHIA 2
NEW YORK
PHILADELPHIA
HARRISBURG
WILKES-BARRE

Officers and Directors
Food Fair Stores, Inc.
2223 East Allegheny Ave.
Philadelphia 34, Penna.

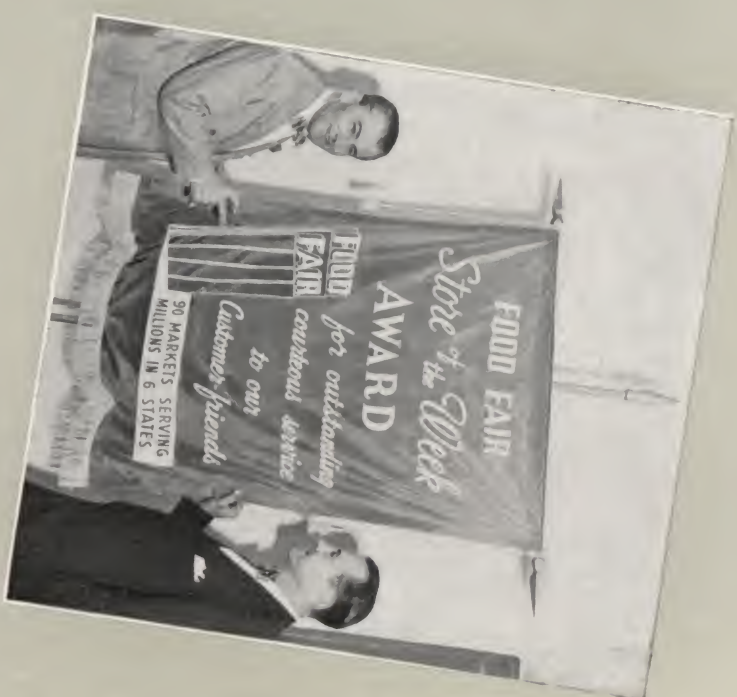
We have examined the Consolidated Balance Sheet of
FOOD FAIR STORES, INC.

and its wholly owned subsidiary companies at December 28, 1946 and the Consolidated Statements of Income and Profit and Loss and Surplus for the year (52 Weeks) then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Income and Profit and Loss and Surplus present fairly the consolidated position of the companies, at December 28, 1946 and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL, KREKSTEIN & CO.

Philadelphia, Penna.
February 14, 1947



FOOD FAIR

and its subsid

CONSOLIDATED BALANCE

ASSETS

Current assets:		
Cash on hand and demand deposits		\$ 3,515,980.72
Obligations of the United States, at cost		1,240.00
Accounts receivable		494,345.78
Inventories, at cost or market, whichever lower:		
Merchandise in warehouses	\$5,372,940.63	
Merchandise in stores	2,954,687.48	
Merchandise in transit	917,499.16	
Store supplies	60,700.00	9,305,827.27
Notes receivable and advances, truckers		54,319.34
Accrued interest receivable on obligations of the United States		590.08
Total current assets		\$13,372,303.19
Net refund claim from "carry-back" of unused excess profits tax credit		40,131.08
Other investments, at cost		90.00
Fixed assets, at cost:		
Land		\$1,428,985.07
Buildings	\$1,973,167.94	
Improvements to leased buildings	621,209.57	
Fixtures and equipment	2,045,815.51	
Automobiles and trucks	61,239.34	6,128,407.43
Total depreciable assets	\$4,701,432.36	
Less: Reserves for depreciation and amortization ...	1,847,238.87	2,854,193.49
Net fixed assets		4,283,178.56
Prepaid and deferred accounts		582,217.22
Deposits with landlords, public utilities, etc.		30,763.00
Cash surrender value of insurance on life of officer		43,050.00
Goodwill		211,335.41
Total assets		\$18,563,068.46



FOREST, INC.
LY COMPANIES
HEET, December 28, 1946

LIABILITIES AND CAPITAL

Current liabilities:			
Accounts payable, trade, etc.	.....	\$ 1,919,130.93	
Mortgage installments due within one year	.....	34,777.88	
Debtore sinking fund payments due in 1947 (Notes 1 and 2)	.....	162,700.00	
Accrued liabilities:			
Salaries and wages	.....	\$ 458,827.01	
Interest on debentures	.....	46,666.67	
Miscellaneous	.....	150,921.60	
		656,415.28	
Social security and withholding taxes payable	.....	224,397.42	
Federal and State income taxes payable—1946	.....	\$2,324,212.03	
Less: United States Treasury Savings Notes, Series C	.....	40,000.00	
		2,284,212.03	
Total current liabilities	.....	\$ 5,281,633.54	
Long-term liabilities:			
Mortgages payable, due after one year (\$145,500.00 not assumed)		\$ 209,587.69	
Fifteen-year sinking fund debentures, 3½ per cent, due February 1, 1959, net of \$160,000.00 principal amount of debentures to be retired through sinking fund in 1947, included in current liabilities (Notes 1 and 2)	.....	2,965,000.00	
		3,174,587.69	
Total long-term liabilities	.....	\$ 3,174,587.69	
Total liabilities	.....	\$ 8,456,221.23	
Capital:			
Capital stock:			
Cumulative preferred, par \$15.00, authorized 193,815 shares (specific preferences determinable upon approvals of issues) of which 48,815 shares were issued; outstanding 47,010 shares; dividend \$2.50 annually; redeemable at \$53.00 per share; entitled to \$50.00 per share in involuntary liquidation (Notes 3 and 4)	.....	\$ 705,150.00	
Common, no par, authorized 2,500,000 shares; issued 1,549,920 shares (Notes 5, 6 and 7)	.....	387,480.00	
		3,951,695.22	
Surplus:			
Capital surplus (Note 7)	.....	
Earned surplus (Note 7):			
Appropriated for retirement of preferred stock	.....	\$ 375,125.43	
Unappropriated	.....	4,687,396.58	
		5,062,522.01	
Total capital	.....	10,106,847.23	
Total liabilities and capital	.....	\$18,563,068.46	

Condensed Balance Sheet and should be read in connection therewith.



FOOD FAIR STORES, INC.

NOTES TO CONSOLIDATED

NOTE 1. The Corporation covenants in the indenture that it will pay to the trustee on each June 15 and December 15, as a sinking fund for the redemption of debentures, a sum in cash in each instance sufficient to redeem on the next succeeding interest payment date at the sinking fund redemption price then in effect the following principal amounts of debentures: to and including December 15, 1949, \$80,000.00; thereafter, to and including December 15, 1951, \$90,000.00; thereafter, to and including December 15, 1952, \$100,000.00; and thereafter, to and including June 15, 1958, \$110,000.00. The indenture provides that the Corporation may deliver to the trustee debentures in lieu of cash.

NOTE 2. The Corporation covenants in the indenture that it will not declare or pay or set aside any dividends (other than dividends payable in shares of capital stock of the Corporation) on any of its capital stock of any class or purchase, redeem or otherwise retire any shares of its capital stock of any class or make any other distribution (except in shares of its capital stock) in respect thereof, or permit any subsidiary to purchase such capital stock, unless immediately thereafter and after giving effect thereto:

- (1) The aggregate amount of dividends declared and paid or payable on capital stock of the Corporation subsequent to December 31, 1943 (exclusive of dividends paid or payable in shares of capital stock of the Corporation) plus the aggregate amount used for such purchases, redemptions, retirements, or other distributions subsequent to December 31, 1943, shall not exceed the sum of (a) consolidated net income subsequent to December 31, 1943, plus (b) \$350,000.00; and
- (2) Consolidated net current assets shall be at least equal to 150% of consolidated funded indebtedness.

Pursuant to the foregoing restrictions in the indenture the earned surplus available for any dividends (other than dividends payable in shares of capital stock of the Corporation) on any of the capital stock and to purchase, redeem or otherwise retire any shares of its capital stock at December 28, 1946, amounted to \$3,749,088.37.

NOTE 3. In accordance with the terms of the issuance of the cumulative preferred stock, the Company is required to set aside annually in a purchase fund for the preferred stock, a sum equivalent to 7½ per cent of the consolidated net earnings of the Company and its subsidiaries, but not in excess of \$100,000.00 annually while any of the preferred stock shall remain outstanding. During the year 1946, the sum of \$100,000.00 was set aside for this purpose in compliance with the foregoing provision.

NOTE 4. (a) In accordance with the resolution of the Board of Directors in connection with the issuance of the \$2.50 cumulative preferred stock, the Corporation shall not declare, set apart or pay dividends:

1. Upon common stock:

(a) Until all dividends have been paid on preferred stock.

(b) If the payment of such dividends on common stock would reduce the ratio of consolidated current assets to consolidated current liabilities to less than 1½ to 1, or so long as the ratio of consolidated current assets to consolidated current liabilities shall be less than 1½ to 1.



AND ITS SUBSIDIARY COMPANIES
BALANCE SHEET

NOTE 4.
(cont'd)

(c) If the Corporation shall be in default in making any sinking fund or purchase fund payments required for the redemption or purchase of any preferred stock.

(d) Out of any capital or surplus accounts, including earned surplus, as said accounts appeared on the books of the Corporation and its subsidiaries, as at December 31, 1939, except that the earned surplus account thus restricted at that date may be reduced by (a) any sum transferred from earned surplus to capital surplus in connection with the redemption or purchase and retirement of the Corporation's \$1.37½ cumulative convertible preferred stock (since redeemed) and (b) the excess, if any, paid on the redemption or acquisition and retirement of each share of \$2.50 cumulative preferred stock over the gross proceeds from the sale of each share of said stock (less only underwriting discounts and commissions) and to be charged to earned surplus. The amount of earned surplus thus restricted from the payment of dividends at December 28, 1946, was \$549,550.40.

2. Upon any class of stock, so long as any of said preferred stock is outstanding: Out of that portion of capital surplus which represents the excess of the gross proceeds from the sale of each share of said preferred stock (less only underwriting discounts and commissions) over and above its par value.

(b) The involuntary liquidating value of the preferred stock is \$50.00 per share or \$2,350,500.00 for the 47,010 shares outstanding at December 28, 1946 which is \$1,645,350.00 in excess of the par value of \$15.00 per share, or \$705,150.00 as shown on the balance sheet at that date.

In the opinion of counsel for the Corporation, neither the resolution of the Board of Directors in connection with the issue of the \$2.50 cumulative preferred stock, nor the language of the certificate of said preferred stock, imposes any restriction upon surplus by reason of the difference between the par value and the liquidating value of the shares (other than the above-stated restrictions with respect to dividends) nor are there any such restrictions imposed by the Constitution or any statute of the Commonwealth of Pennsylvania or indicated by any decision of Pennsylvania or Federal Courts.

NOTE 5. Purchase warrants, attached to preferred stock when sold, are outstanding to purchase before December 31, 1947, 22,248 shares of common stock (21,404 shares at December 31, 1946) at \$6.25 per share.

NOTE 6. Options, granted to certain employees and officers of the Corporation, are outstanding to purchase before September 4, 1950, 113,608 shares of common stock at \$4.87½ per share.

NOTE 7. A common stock dividend of 77,538 4/20 shares (including scrip 20ths) was paid on December 30, 1946, resulting in a charge of \$1,007,996.60 to earned surplus and a credit of \$19,384.55 to capital stock and \$388,612.05 to capital surplus. In addition, 5,680 8/20 shares are reserved for issuance as a stock dividend upon exercise of options to purchase 113,608 shares of common stock, which will result in a charge of \$73,845.20 to earned surplus and a credit of \$1,420.10 to capital stock and \$72,425.10 to capital surplus.



CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

For the Year (52 weeks) ended December 28, 1946

Capital surplus, December 29, 1945	\$3,481,463.96
Additions:	
Excess of book value of capital stock of Big Bear Food Stores, Inc. over cost of acquisition to Food Fair Stores, Inc., on October 30, 1944 not previously consolidated	\$ 3,931.76
Proceeds received from issuance over par value of 6,990 shares of common stock through exercise of purchase warrants attached to cumulative preferred stock	150,033.50
Proceeds received from issuance over amount assignable to capital stock of 29,328 shares of no par value common stock through exercise of purchase warrants attached to cumulative preferred stock	175,968.00
Proceeds received from issuance over amount assignable to capital stock of 46,392 shares of no par value common stock through exercise of stock options by employees	214,563.00
Total	<u>\$4,025,960.22</u>
Deductions:	
Excess of cost of 2,205 shares of cumulative preferred stock redeemed over par value	\$ 72,765.00
Expenses in connection with the issuance of common stock through exercise of purchase warrants attached to cumulative preferred stock	1,500.00
Total	<u>74,265.00</u>
Capital surplus, December 28, 1946	<u><u>\$3,951,695.22</u></u>

CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the Year (52 weeks) ended December 28, 1946

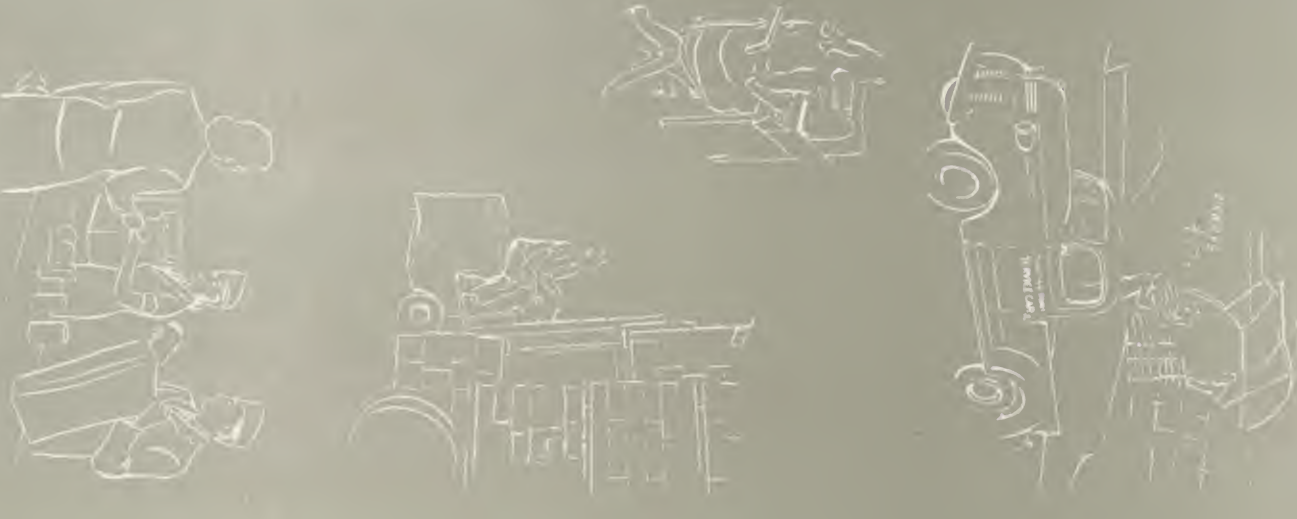
Earned surplus, December 29, 1945	\$2,080,260.43
Additions:	
Net income for the year (52 weeks) ended December 28, 1946	\$3,642,084.44
Adjustment for prior years' depreciation and Federal and State taxes	15,316.57
Total	<u>3,657,401.01</u>
Deductions:	
Excess of cost of 2,205 shares of cumulative preferred stock redeemed over proceeds received at issuance thereof	\$ 8,830.59
Dividends paid:	
Common stock	\$545,500.95
Cumulative preferred stock	120,807.89
Total	<u>666,308.84</u>
Earned surplus, December 28, 1946:	
Appropriated for retirement of preferred stock	\$ 375,125.43
Unappropriated	4,687,396.58
Total	<u><u>\$5,062,522.01</u></u>

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

For the Year (52 weeks) ended December 28, 1946

Sales		\$101,198,137.71
Cost of sales:		
Inventory, December 29, 1945	\$ 6,008,632.94	
Purchases	83,604,324.48	
Total	\$89,612,957.42	
Less: Inventory, December 28, 1946	9,245,127.27	
Cost of sales	<u>80,367,830.15</u>	
Gross profit from sales	<u>\$ 20,830,307.56</u>	
Operating expenses:		
Maintenance and repairs	\$ 657,954.28	
Depreciation of equipment and buildings and amortization of improvements	278,384.58	
Taxes, other than taxes on income	365,744.97	
Rents	655,508.89	
Store wages, operating, general and administrative expenses	12,878,354.48	
Total operating expenses	<u>14,835,947.20</u>	
Profit from operations	<u>\$ 5,994,360.36</u>	
Other income:		
Interest	\$ 8,656.34	
Rents received	104,420.69	
Profit on sales of property, etc.	2,424.32	
Miscellaneous	239.18	
Total other income	<u>115,740.53</u>	
Profit before interest expense	<u>\$ 6,110,100.89</u>	
Interest expense:		
Interest on debentures	\$ 113,750.00	
Interest, other	21,440.45	
Amortization of debenture discount	5,895.22	
Premium on debentures retired	2,718.75	
Total interest expense	<u>143,804.42</u>	
Net income before Federal and State taxes on income	<u>\$ 5,966,296.47</u>	
Federal and State taxes on income:		
Federal income tax	\$ 2,231,359.45	
State income taxes	92,852.58	
Total Federal and State taxes on income	<u>2,324,212.03</u>	
Net income	<u>\$ 3,642,084.44</u>	

NOTE: In accordance with the terms of the issuance of the cumulative preferred stock, \$100,000.00 of the foregoing net earnings was set aside during the year 1946 for the purchase and retirement of such stock.



PLANNING AND CONSTRUCTION

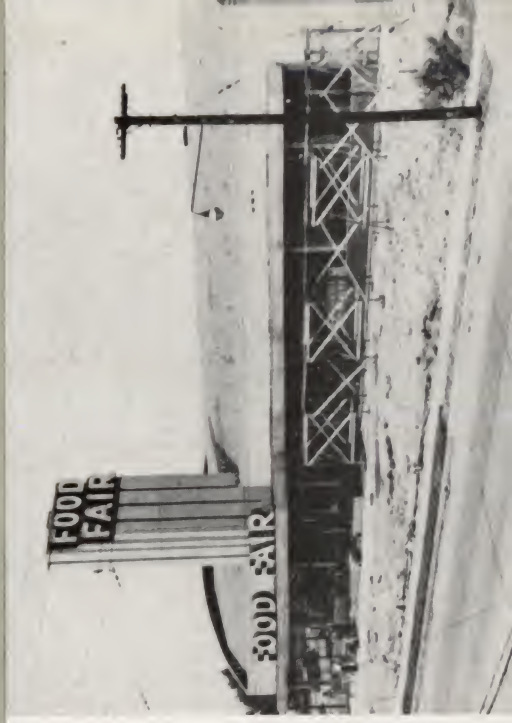
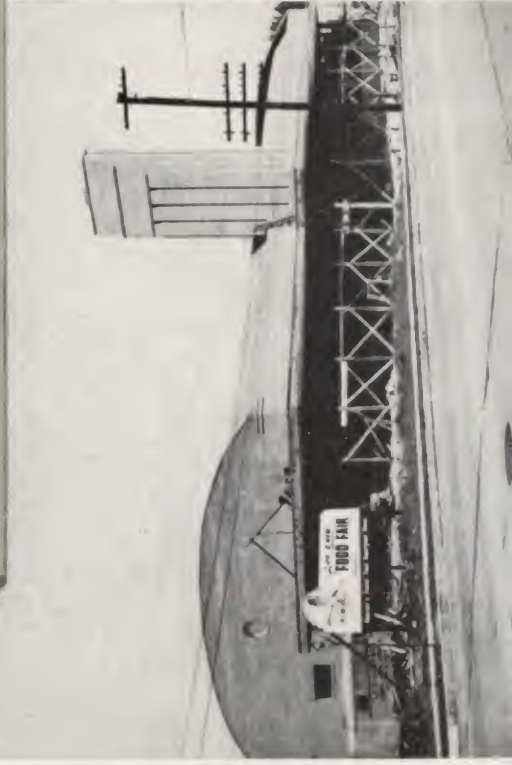
Every step of store layout and construction is under the direct supervision of Food Fair's architectural and planning departments.



Food Fair maintains a fully-equipped carpenter shop where display shelves, checking booths and other fixtures are constructed.



Our electrical engineers give individual attention to installation of lighting fixtures, with emphasis on eye-comfort for customers.



OF A FOOD FAIR MARKET

To meet everyday needs and last minute demands, Food Fair maintains a modern sign shop in which posters, placards and signs are planned and made.



Display fixtures are designed to keep merchandise at eye-level and readily accessible.



Individual shopping habits are studied and store layouts are planned for customer shopping convenience.

